



CONGRESSIONAL BUDGET OFFICE

Military Compensation: Balancing Cash and Noncash Benefits

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The views expressed in this talk are those of the author and should not be interpreted as those of the Congressional Budget Office

The Fuzzy Boundaries of Non-cash Compensation

- **Cash**

- Market choices
- Pay, allowances, tax advantage

- **Restricted cash**

- Subset of market choices
- Pensions, GI Bill Educational Benefits

- **Goods and services at below-market prices**

- Voluntary consumption
- Full or partial subsidy

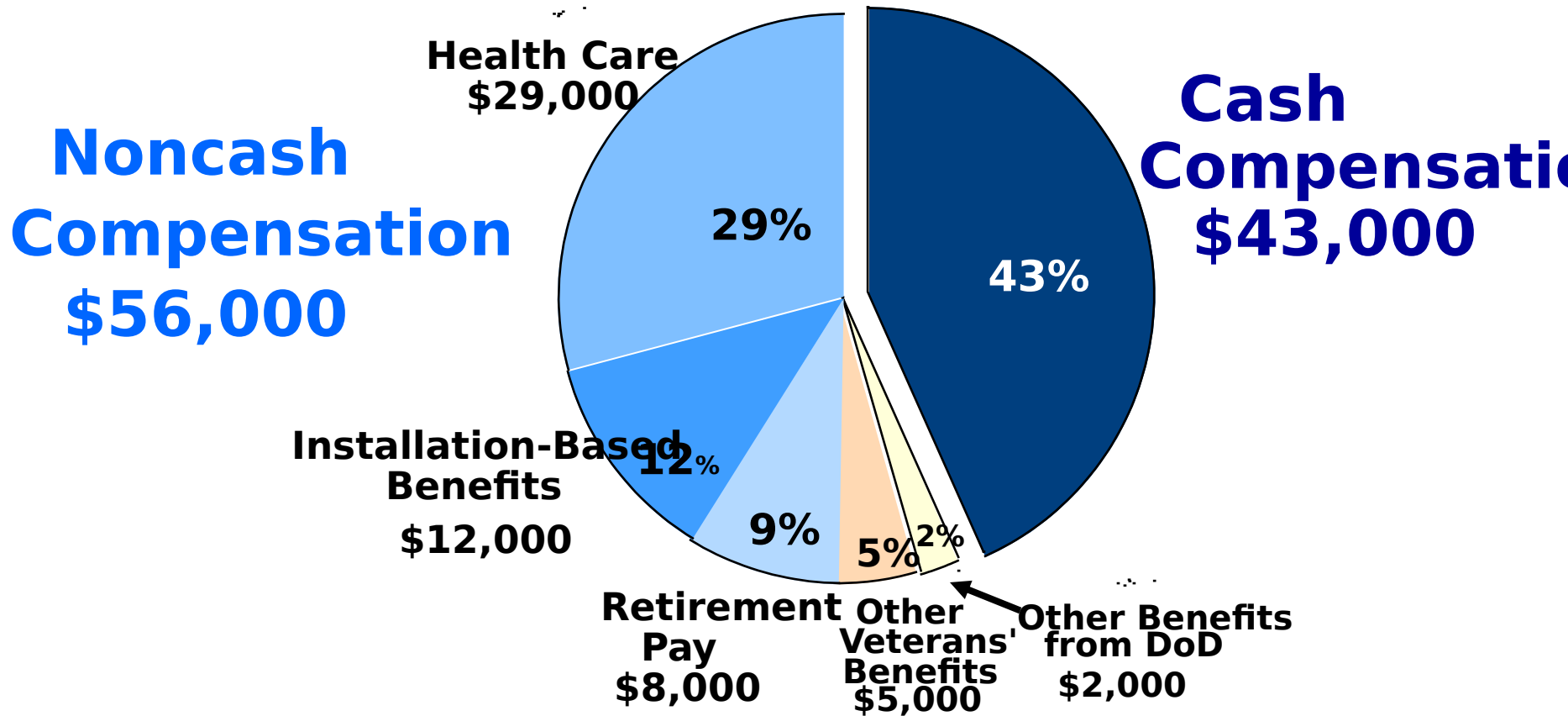
- **Conditions of work**

- Involuntary consumption
- Compensation and production

**In-kind:
voluntary
consumption,
limited choice**

Average Active-Duty Compensation

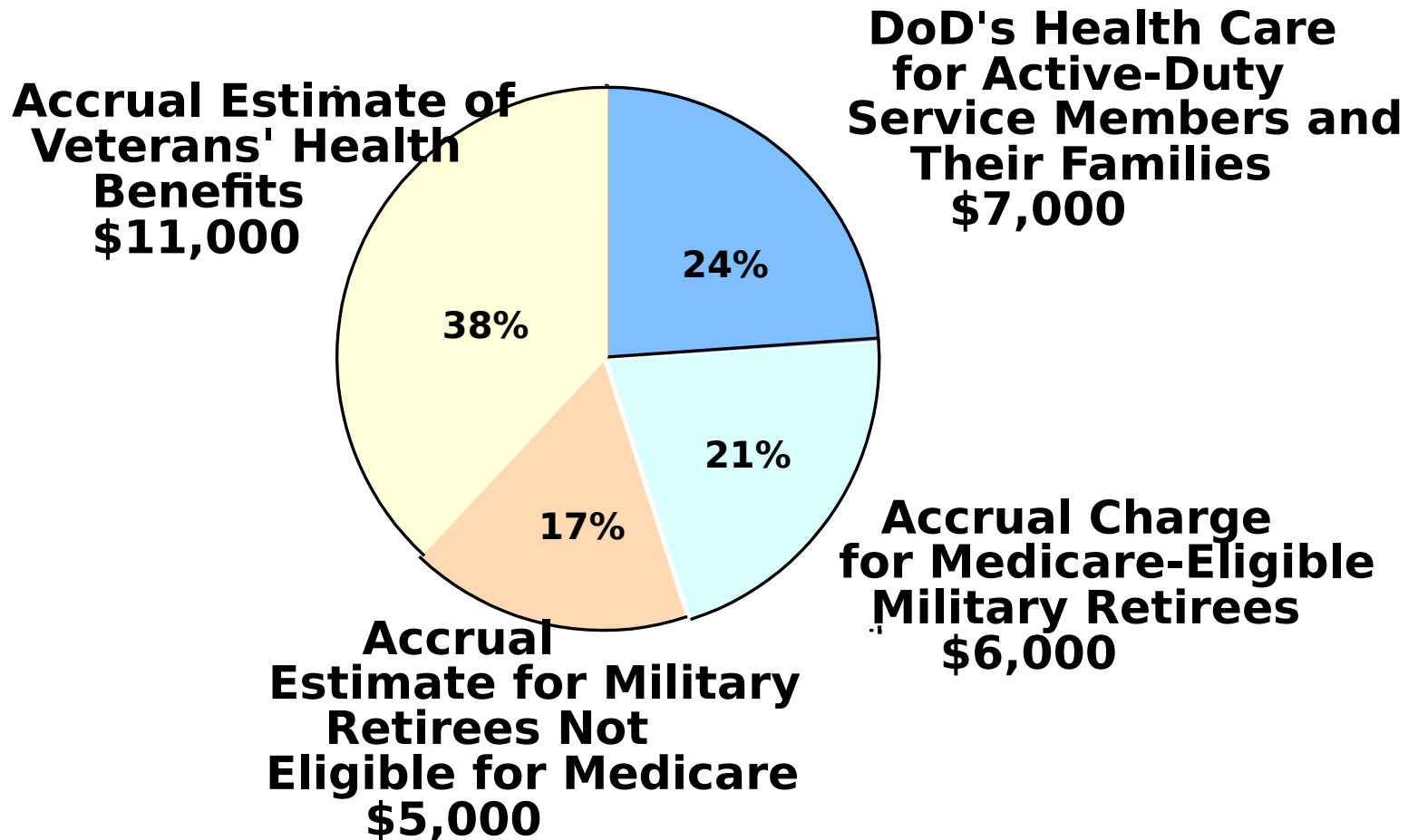
(\$99,000 in FY 2002)



Source: CBO based on data from DoD and OMB
Deferred compensation estimated on an accrual basis.

Average Health Care Benefits

(\$29,000 per Active Duty Member in 2002)



Methodology

- Uses budget data for the current pay and benefits of active duty service members
 - Includes milpers, O&M, and milcon appropriations
 - FY 2002 is last year complete data were available at the time
 - Also better represents “peacetime” force
- Deferred compensation (retirement, post-service medical and VA) estimated on accrual basis using information from DoD and OMB
 - Will therefore **not** match budget data!
- Per active-duty member calculation is a simple average
 - Does not capture varying service profiles

Benchmarks

- Private sector non-cash share of total compensation
 - BLS estimates 23 percent non-cash for all occupations, 27 percent for blue collar
 - Using a different method, estimates in a separate CBO study for workers under age 35 ranged from 24 to 27 percent.
 - Fewer firms offer defined benefit retirement
 - More firms offering flexible “cafeteria” plans
- Non-military federal government
 - In separate study, CBO estimates for federal civilians under 35 ranged from 26 to 32 percent

Views Supporting Noncash Benefits

- Promotes readiness
- Ensures good quality of life
 - Particularly for young service members
- Attracts and retains service members at lower cost than cash
- Provides stable form of compensation

Views Supporting Cash Benefits

- Value is more easily recognized
- Cash gives individuals more choices
- Current system is less effective than it might be

Options to Increase the Share of Cash Relative to Noncash

1. Offer medical “cafeteria plan” allowing employees to choose between cash and noncash medical benefits
2. Offer cash allowances instead of noncash benefits
3. Incorporate some noncash benefits into the military personnel budget